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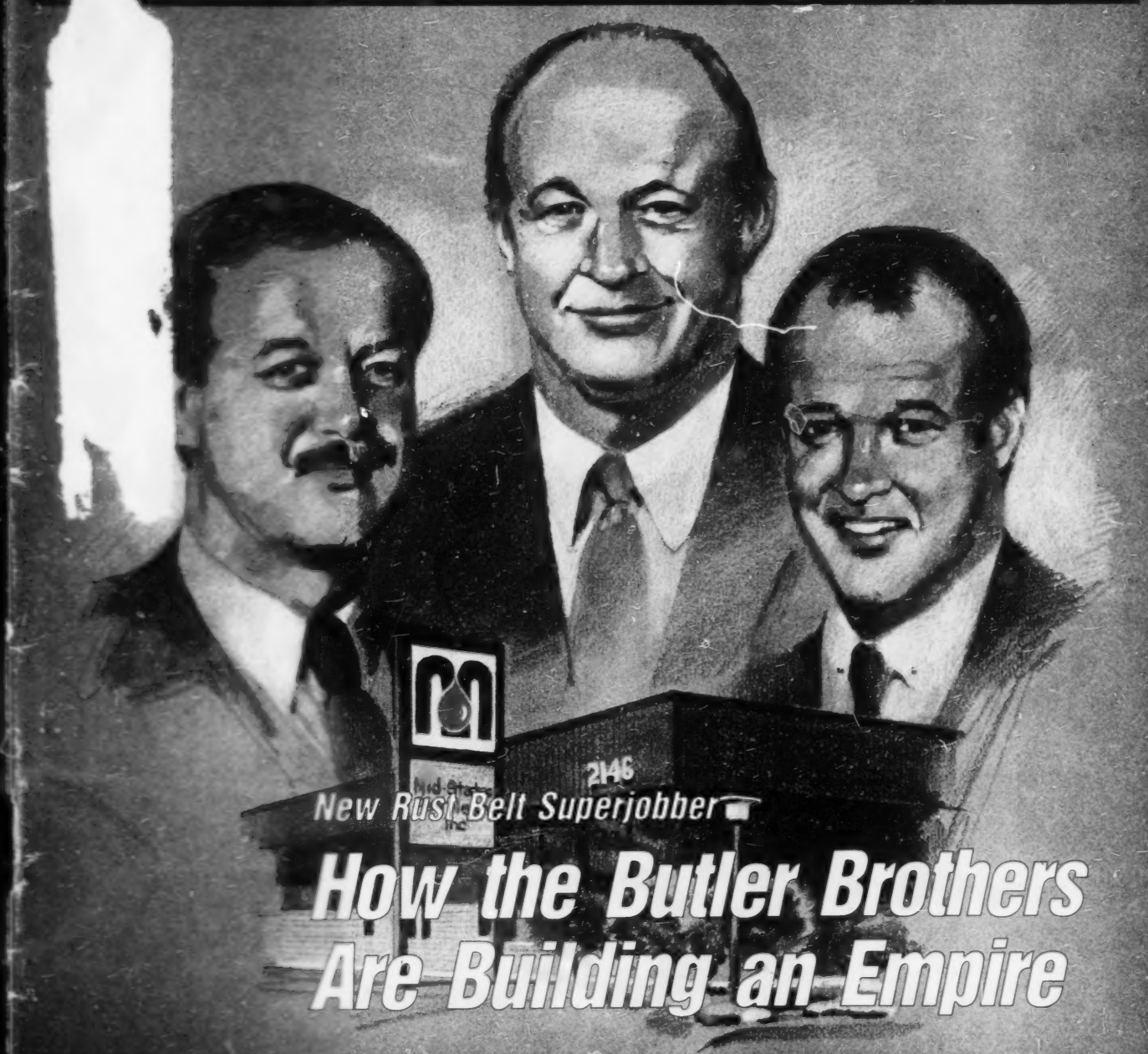
850,000 b/d of OPEC Product Coming Soon?
Chevron May Follow Arco Out of Northeast
Where Majors Stand on Multi-Station Deals

NPN

National Petroleum News



New Rust Belt Superjobber

How the Butler Brothers Are Building an Empire

NATIONAL PETROLEUM NEWS

OCTOBER 1985 VOL. 77 NO. 10

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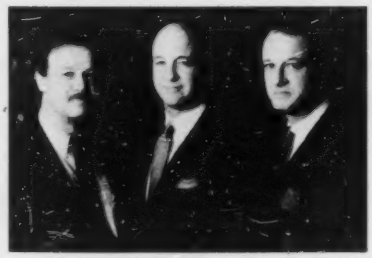
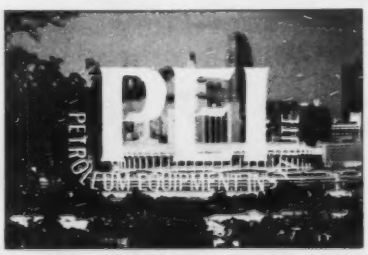


A new breed of superjobber is beginning to emerge as bright young marketers find ways to cope with the changes in the industry. Once a small private-brand jobber, Mid-States Petroleum today is running at the front of the pack under the leadership of the Butler brothers management team. **Page 56**

For a while in the early 1980s, the majors thought multi-station dealers could help them match the explosive changes taking place in gasoline retail marketing. The concept may be losing some of its allure, but many marketers think the majors will keep trying as they struggle to cope with spiraling costs. **Page 62**



The last time PEI held its annual meeting in Cincinnati, a brutal heat wave engulfed the city. This time, PEI distributors and manufacturers will face the heat of underground storage tank and liability insurance problems. **Page 68**

Can OPEC Product Force its Way into U.S.?

Petroleum Industry Research Foundation Inc. (Pirinc) says as much as 850,000 b/d of OPEC gasoline, distillates and other light ends may be looking for homes in U.S. marketplaces within the next two to three years.

On the other hand, New York-based, oil company-supported Pirinc says the OPEC volume may not be that high—perhaps only 385,000 b/d.

Either way, it's a lot of imported product looming on the horizon at a time when industry and legislative circles already are in a tizzy over the 600,000 b/d to 700,000 b/d of product currently coming in from outside.

The 850,000 b/d and 385,000 b/d figures are the high- and low-side projections that Pirinc used recently in an extensive review of world product markets and what's going to happen between now and 1990 as 2.5-million b/d of additional refining capacity comes on-sream in OPEC countries.

Pirinc concedes that some of the OPEC capacity may not be completed by 1990, but says that most of it will be on-stream by 1988. According to Pirinc, 900,000 b/d of new capacity is already in operation. Thus, the critical years are 1985-1988, not necessarily 1984-1990.

Pirinc's study strives hard to be objective. It looks at the four principal marketplaces of the world—the U.S., Western Europe, Japan and Asia-Pacific—in great detail. But it draws no conclusions of its own, and offers no solutions or policy recommendations.

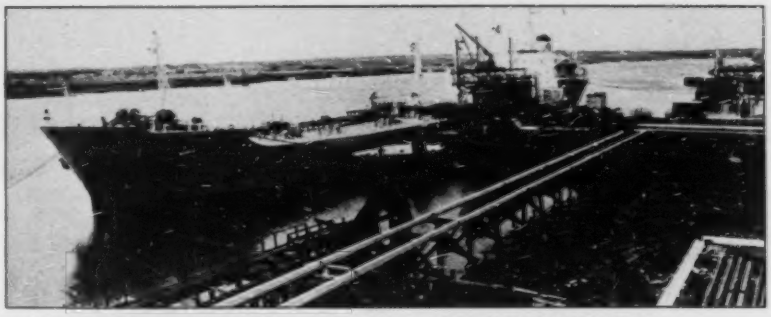
"What we tried to do," says Pirinc president John Lichtblau, "was to provide a framework for rational discussion of the issues and the problems."

Pirinc assumes that the bulk of the OPEC refinery construction program, most of which is in Saudi Arabia, is inevitable and that the member countries soon will have 1.85-million b/d of light product available for export.

It devises two scenarios, one of which assumes that the principal consuming markets will accept *pro rata* "shares" (even though they really don't need a drop more to meet their needs), and the other that assumes that Western Europe and Japan will rebel and take only minimal amounts of the *pro rata* "shares" [See table].

In the so-called low absorption case, the volume of products "available" for U.S. marketplaces would be 850,000 b/d. In the high absorption case, the volume would be 385,000 b/d.

The Pirinc study does not say that the OPEC products will be imported automatically. It simply says they will be "available," indicating it will be up to the U.S. industry itself to determine how much it will bring in.



Upcoming OPEC capacity could push U.S. imports over the 850,000 b/d level.

Pirinc does make two major points, however:

- If the 850,000 b/d level becomes reality, it will place another 1-million b/d of U.S. refining capacity "in jeopardy."

"Much of this capacity is already weakened by the poor refinery economics of recent years and will be adversely impacted by upcoming lead phasedown requirements," the study says. "However, even if actual import levels should be lower, the potential availability of the projected volume of light products would likely have a negative impact on U.S. refinery margins and thus could affect operating decisions."

The U.S. has mothballed, dismantled or shut down 3.5-million b/d of refinery capacity in recent years. Western Europe has shut down 4.5-million b/d at the same time, emphasizing the incongruity of OPEC's determination to expand its own facilities.

- There is reason to fear . . . and believe . . . that OPEC refiners may have cost advantages that are insurmountable and therefore (in substance) be able to flood the world markets with low-cost product.

"The concern of many domestic refiners is that the OPEC export refiners may have inherent, insurmountable, competitive advantages deriving from the refiners' access to their own crude oil and the fact that the market price of crude oil is substantially below the production cost," says the study.

"The OPEC national oil companies are therefore in a position to transfer part of their economic rent on crude oil to their refining sector, either by setting crude transfer prices below market prices or by letting their refineries operate at a loss and maintain their full upstream profit."

Pirinc notes that a recent study by the U.S. International Trade Commission seems to confirm Western suspicions that this strategy already has been adopted to some extent by the OPEC refineries.

The study, in its review of the various global marketplaces, says that Western Europe has indicated it may be willing to take its *pro rata* "share" of the OPEC output, even though it doesn't need it. Japan, on the other hand, administratively opposes such imports now and is considered a good bet to continue that policy. If it does, then Western Europe would be expected to back off and resist too with tariffs and taxes.

The latter would enhance the profitability of the OPEC states to shift their market emphasis from Europe and Japan to the U.S. which, as the study says, doesn't need additional imports either, and has sufficient refining capacity now to take care of the slow growth demand that's anticipated.

The Pirinc study also takes note of the

Where OPEC's Excess May Go

	1984	Low Absorption	High Absorption
Total Available	1,020,000 b/d	1,845,000 b/d	1,845,000 b/d
W. Europe	265,000	300,000	300,000
Japan	75,500	175,000	233,000
Asia-Pacific	490,000	525,000	725,000
Subtotal	650,000	995,000	1,460,000
U.S. "share"	170,000	850,000	385,000

"Low assumes Europe and Japan take only minimal increases; high assumes Europe, Japan and Asia-Pacific accept maximum shares.

shift in the source of imported products coming into the U.S. in recent years. It used to be that the Caribbean was a key area, with refineries in Puerto Rico and the Virgin Islands accounting for as much as 60% of imports and other non-U.S. territory islands accounting for 15%. Now these areas are down to 20% and 8% respectively, while Venezuela and Canada have increased their share from 1% to 30%.

Other relatively recent product exporters include Brazil, the United Arab Emirates, Western Europe, Romania and China. The Caribbean still accounts for 43% of the U.S. imports of gasoline and blending stocks while the non-traditional sources are now up to 38%.

Imports from the Caribbean areas are expected to decline even more in the next five years, but it will be interesting to watch whether the OPEC products come in as routine replacements or by elbowing others out of the way. NPN

Players Take Up Sides For Import Fee Battle

The 5,400-member Texas Independent Producers & Royalty Owners Assn. (TIPRO), considered one of the industry's strongest lobbying groups, has endorsed the idea of an import fee on crude oil and refined products.

TIPRO's National Energy Policy Committee says the U.S. bears various hidden costs in maintaining the flow of imported oil and refined products, including spending on military operations to protect shipping lanes.

A U.S. State Department official, E. Allan Wendt, meanwhile, recently wrote American Petroleum Institute president Charles DiBona stating that higher tariffs on crude oil and products would raise the costs of all forms of energy.

The imports issue is expected to come to a head during the current session of Congress.

TIPRO's endorsement of higher fees or tariffs to limit imports adds strength to what was already an impressive lobbying force. Independent refiners earlier this year formed a 35-member coalition for the express purpose of lobbying for measures to halt the growing volume of imports.

Independent oil marketer groups, meanwhile, are lined up on the opposite side of the fence. Both the Society of Independent Gasoline Marketers of America and the Petroleum Marketers Assn. of America are opposed to any limitation of product imports. PMAA, in particular, offered strong testimony against a fee or tariff before a Senate subcommittee this past summer. NPN

Ethanol/Toluene Tariff 'Screwup' Prompts Protests

The U.S. Customs Service found itself in the center of a major controversy in late August over the amount of tariff levies placed on imports of ethanol blended with toluene.

Customs officials had only themselves to blame. It began with a partial exemption granted to six ethanol/toluene importers and ended with a civil lawsuit filed against Customs by a coalition of domestic corn growers and ethanol producers.

In early August, Customs notified the six importers that ethanol/toluene blends would be subject to only a 5% ad valorem duty on the blend, as compared to the usual 3% ad valorem plus 60¢ gal. tariff on imports of straight fuel ethanol.

Bowing to a storm of congressional and administration pressure, Customs did something of an about-face just before Labor Day when it set a Nov. 1 deadline for ethanol/toluene imports under the lower tariff. This however, only made domestic growers and producers angrier. The deadline gave importers a full two months to bring in the ethanol/toluene blend at the lower tariff.

Although the Customs ruling says the incoming blends had to have been contracted for before August 2, one U.S. Congressman said the Nov. 1 deadline gave importers the chance to bring into the U.S. as much as 500-million gal. of the blend. "That's equivalent to the total U.S. production for one year and a potential loss of $1.2-billion in U.S. farm income," Rep. Richard Durbin (D-Ill.) was quoted as saying.

In addition to the lawsuit against Customs, a Washington law firm representing a major ethanol producer wrote to Customs urging the service to revoke the letters sent to the six importers allowing the lower-tariff imports.

Domestic corn growers and ethanol producers were understandably upset with the action taken by Customs. The domestic ethanol market was expected to increase by 15% this year over 1984, according to a recent study by Information Resources Inc., a Washington-based alcohol fuels research firm.

Approximately 6.6-billion gal. of ethanol-blended gasoline (10% ethanol/90% gasoline) will be sold in this country in 1985, compared with 5.7-billion gal. sold last year, says IRI.

Although the domestic ethanol industry has the capacity to produce 858.5-million gal. of ethanol, only about 555-million gal. will be produced domestically, with about 130-million to 150-million gal. of ethanol coming into this country from abroad, particularly from Brazil.

Ethanol is the least expensive method of boosting octane after methanol, which has not gained the widespread acceptance of ethanol. IRI estimates ethanol costs about 70¢ gal. to 80¢ gal. when blended with gasoline when state and federal tax exemptions are considered. MTBE costs about 30¢ to 40¢ gal. more to use, and toluene is about 50¢ gal. more expensive than ethanol, IRI noted.

Methanol, despite strong resistance from a number of automakers, has become increasingly popular in a number of areas. IRI estimates 260-million gal. of methanol/gasoline blends will be sold, up from 248.5-million gal. last year. NPN

41 States Change Blend Regs—More to Come

With the rapid expansion of the domestic alcohol fuels market has come an equally rapid evolution in state and federal regulations covering the industry.

According to a new report on the changes in state regulations for alcohol fuels, 41 states now require pump labeling for alcohol blends. Some labeling laws require that the type and percentage of alcohol be displayed, and others simply require a sign saying that the product contains alcohol. Some states have set limits on the alcohol or oxygen content of all motor fuels, while others specifically limit the amount of methanol that can be blended into gasoline.

The situation can be quite confusing for any marketer who distributes or retails an alcohol blend in more than one state.

"Survey of Federal and State Alcohol Fuel Regulations," compiled by Herman & Associates, a Washington D.C.-based alcohol and energy issues consulting firm, addresses alcohol regulations by the federal government as well as those in all 50 states.

The study looks not only at state regulations for alcohol fuels, but also which states have adopted American Society of Testing and Materials standards for gasoline and which have written their own gasoline specs. Also covered is a survey of all 19 domestic and imported carmakers and their positions on ethanol and methanol blends. While all 19 carmakers approve the use of ethanol blends beginning in the 1986 model year, nine of the companies still recommend against any use of a methanol blend in their products.

The comprehensive look at the current state of alcohol fuel regulations is available for $595 by writing to: Herman & Associates, 2300 M Street N.W., Suite 800, Washington, D.C., 20037. NPN

'85-'86 Price Forecast: No Improvement

Although the outlook is not bleak by any means, the latest forecast by the federal government isn't one that's going to get marketers excited about the balance of 1985 and 1986.

Issued by the Energy Information Administration in mid-August, the revised Short-Term Energy Outlook anticipates a sharp drop in the pump price of gasoline in the second half of this year—perhaps as much as 8¢ gal. from the June 1985 average of $1.22 gal. to a January 1986 average of $1.13 gal.

Horrendous as that may sound, however, it cannot be considered too bad when it is compared with last January's retail prices, which averaged $1.14 gal. Thus, the calendar year drop is only 1¢ gal.

But the projections for 1986 are not of good cheer either. The federal analysts expect gasoline prices to rise no higher than $1.15 or $1.16 gal. in the summer driving months, then level off so that the average for the year is no better than $1.15 gal.

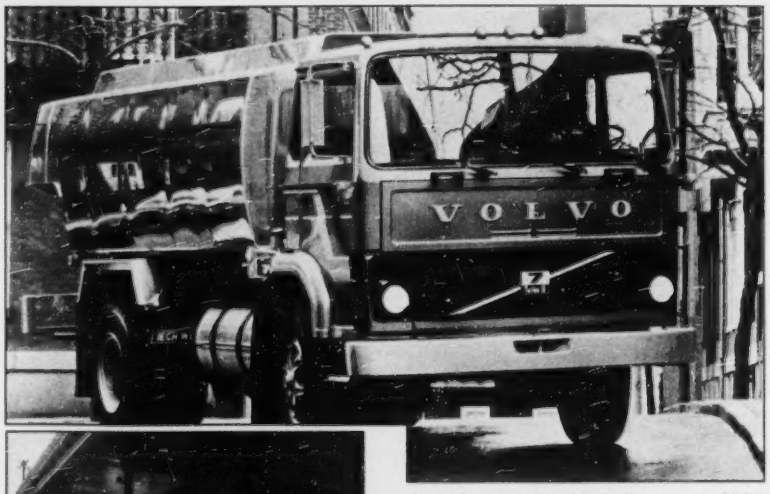
The same sort of dreariness seems to be ahead for the fuel oil marketers too.

Home heating oil is expected to average no better than $1.03 gal. (ex taxes) this winter. At the same time, residual may be setting all sorts of lows this winter and next.

Although the government analysts charitably attributed the depressed gasoline prices in the second half to lower crude oil prices, many others blamed the flood of gasoline imports for the marketplace problems.

Gasoline imports ranged around 500,000 b/d on several occasions this past summer.

Gasoline demand, after an upward tick this past summer, is expected to average about 6.9-million b/d for the year. That would make it about 1.5% better than 1984. The forecasters aren't overly optimistic about 1986, however, and project that demand will average 6.7-million b/d. That would make it close to 3% under 1985.



Home heating oil prices will average $1.03 gal., while gasoline will fall to a $1.13 gal. average by January, says EIA.

An interesting aspect of the projection is the continuing decline in the demand for leaded gasoline. At the end of 1984, leaded gasoline accounted for 41% of the daily demand. It's expected to slip to an average of 35% by the end of this year, and to 25.7% by December 1986.

Since leaded gasoline is scheduled to contain no more than 0.1 grams/gal. of lead after next Jan. 1, the physical difference between leaded and unleaded will be negligible.

Distillate demand is expected to increase in calendar year 1986—more in response to transportation needs than space heating.

Emphasizing how severe the slump has been in the residual fuel area, demand is expected to fall below the 1-million b/d mark in the third quarter of this year and next—traditional periods when it should be accelerating madly instead of going the other way. NPN

	History					Projections				
		1985				1986				
	1984	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Avg.	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Avg.
Prices ($ per gal.)											
Motor Gasoline (a)	1.20	1.14	1.22	1.21	1.18	1.19	1.13	1.15	1.16	1.15	1.15
Distillate Fuel Oil (b)											
Wholesale	0.83	0.80	0.79	0.77	0.77	0.78	0.77	0.76	0.76	0.77	0.77
Retail	1.09	1.05	1.03	1.01	1.02	1.03	1.03	1.01	1.02	1.05	1.03
Residual Fuel Oil (c)	0.69	0.68	0.62	0.59	0.58	0.62	0.55	0.54	0.54	0.55	0.55
Supplies (millions b/d)											
Motor Gasoline											
Leaded	2.71	2.41	2.54	2.36	2.20	2.38	1.98	2.02	1.90	1.74	1.91
Unleaded	3.99	4.09	4.46	4.53	4.54	4.41	4.41	4.88	5.01	5.02	4.83
Total (d)	6.69	6.49	7.00	6.89	6.73	6.78	6.39	6.90	6.92	6.76	6.74
Distillate Fuel Oil	2.84	3.28	2.69	2.54	3.18	2.92	3.34	2.93	2.68	3.32	3.07
Residual Fuel Oil	1.37	1.36	1.09	0.97	1.15	1.14	1.43	1.04	0.96	1.14	1.14

(a) Average for all grades and services, including taxes.
(b) Excludes taxes.
(c) Average, all sulfur contents.
(d) May not total due to rounding off.
Source: Short-Term Energy Outlook, August 1985, Energy Information Administration